

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

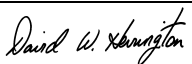
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Richmond, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Richmond, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Richmond, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Honorable Mayor and Members
of the City Council
City of Richmond, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 27, 2006

City of Richmond, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Richmond, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with City's financial statements which follow.

Financial Highlights

As discussed in further detail in the management's discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2006:

- Tax revenues, the City of Richmond's largest single revenue source, totaled \$2.6 million in the General Fund this year, representing an increase of 5.9 percent from last fiscal year. This increase primarily reflects the growing tax base of the community as the City continues to realize considerable residential, industrial, and commercial development. The City's taxable value increased from \$172 million in 2004 to \$183 million in 2005. The taxable value of the City would have been greater if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of more than \$600,000 in the 2005/2006 fiscal year, based upon the City tax levy of 16.6526 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, continued its downward trend of the past several years. The City received \$481,611 in the 2005/2006 fiscal year, a reduction of \$4,450, or 1 percent, from last year and a reduction of \$203,096, or more than 30 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state-shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities is \$1.7 million, a reduction of \$394,000, or 18.8 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding General Fund, Streets, and Enterprise Funds capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20+ year street improvement program and reviews water and sewer rate structures annually to ensure an acceptable level of working capital is maintained, while providing the funding necessary to complete the utility capital improvement program.
- Total fund balance for the City's governmental funds increased approximately \$318,000 primarily as a result of the development and growing tax base of the City.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report includes a series of financial statements. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services. The activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Business-type activities include the Water and Sewer Funds.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Richmond as a Whole

The following table shows a condensed format of the net assets (in thousands of dollars) as of June 30, 2006 and 2005:

	Governmental		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 3,848	\$ 3,458	\$ 3,427	\$ 2,804	\$ 7,275	\$ 6,262
Noncurrent assets - Capital assets	6,396	6,223	13,835	13,574	20,231	19,797
Total assets	10,244	9,681	17,262	16,378	27,506	26,059
Liabilities						
Current liabilities	467	379	120	55	587	434
Long-term liabilities	1,699	2,094	213	-	1,912	2,094
Total liabilities	2,166	2,473	333	55	2,499	2,528
Net Assets						
Invested in capital assets - Net of related debt	4,882	4,288	13,622	13,574	18,504	17,862
Restricted	618	1,322	397	376	1,015	1,698
Unrestricted	2,578	1,598	2,910	2,373	5,488	3,971
Total net assets	<u>\$ 8,078</u>	<u>\$ 7,208</u>	<u>\$ 16,929</u>	<u>\$ 16,323</u>	<u>\$ 25,007</u>	<u>\$ 23,531</u>

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets for both governmental and business-type activities total \$25 million for fiscal year 2006. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total approximately \$20 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$5 million.

The following table shows the change in net assets for the years ended June 30, 2006 and 2005 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 680	\$ 678	\$ 1,824	\$ 1,709	\$ 2,504	\$ 2,387
Operating grants and contributions	431	257	-	-	431	257
Capital grants and contributions	-	-	413	419	413	419
General revenue:						
Property taxes	2,985	3,029	-	-	2,985	3,029
State-shared revenues	482	796	-	-	482	796
Interest	149	55	98	41	247	96
Franchise fees	59	55	-	-	59	55
Miscellaneous	360	414	-	-	360	414
Transfers	20	25	(20)	(25)	-	-
Total revenue	5,166	5,309	2,315	2,144	7,481	7,453
Program Expenses						
General government	829	693	-	-	829	693
Public safety	1,623	1,649	-	-	1,623	1,649
Public works	1,031	865	-	-	1,031	865
Recreation and culture	666	599	-	-	666	599
Community development	80	136	-	-	80	136
Interest on long-term debt	66	79	-	-	66	79
Water and sewer	-	-	1,709	1,293	1,709	1,293
Total program expenses	4,295	4,021	1,709	1,293	6,004	5,314
Change in Net Assets	\$ 871	\$ 1,288	\$ 606	\$ 851	\$ 1,477	\$ 2,139

Governmental Activities

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenues.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

The cost of providing services for governmental activities was \$4.3 million for fiscal year 2006. Additionally, revenues for governmental activities totaled \$5.2 million, which netted to an increase in net assets for the year of \$871,000. This indicates that the users of today's services paid more than the full costs of operations during the year ended June 30, 2006.

Business-type Activities

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

The City's Funds

Our analysis of the City's major funds begins on pages 11 and 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Major Streets Special Revenue Fund, Special Assessment Debt Service Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenues from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1,008,000 in 2006. The General Fund is supported primarily by property taxes and state-shared revenue.

Budgetary Highlights

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds increased \$318,000. The following provides specific details regarding the amendments:

- A total of \$106,273 was transferred from the General Fund unreserved fund balances to the Police Post Buildings and Grounds department to provide funding for major repairs to the police post HVAC and security systems and entrance walkways.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2006, the City had \$20.2 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City.

City of Richmond, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

The City's total bonded indebtedness as of June 30, 2006 is approximately \$1.7 million. Of this amount, \$1.1 million represents a general obligation bond, \$500,000 represents capital lease obligations, and the remainder represents a special assessment bond and an installment purchase obligation to purchase a fire truck.

Economic Factors and Next Year's Budgets and Rates

The national economy is demonstrating strong indications of recovery during 2005 and 2006. However, Michigan's fiscal crisis is entering its sixth year. State revenues are at their lowest since 1970. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2005 and into 2006, the City anticipates level funding in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Richmond's finance department.

City of Richmond, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 3,607,357	\$ 2,523,957	\$ 6,131,314	\$ 2,507,708
Receivables:				
Special assessments	88,969	64,880	153,849	-
Customers	-	435,851	435,851	-
Other governmental units	152,007	-	152,007	525,540
Prepaid items	-	5,845	5,845	-
Restricted cash and cash equivalents (Notes 3 and 7)	-	396,979	396,979	-
Capital assets (Note 4):				
Assets not being depreciated	120,000	157,042	277,042	1,049,366
Assets being depreciated - Net	<u>6,276,451</u>	<u>13,677,920</u>	<u>19,954,371</u>	<u>9,492</u>
Total assets	10,244,784	17,262,474	27,507,258	4,092,106
Liabilities				
Accounts payable	299,359	77,813	377,172	52,461
Accrued and other liabilities	167,698	42,451	210,149	954
Noncurrent liabilities (Note 6):				
Due within one year	498,447	106,650	605,097	255,000
Due in more than one year	<u>1,201,151</u>	<u>106,650</u>	<u>1,307,801</u>	<u>560,000</u>
Total liabilities	<u>2,166,655</u>	<u>333,564</u>	<u>2,500,219</u>	<u>868,415</u>
Net Assets				
Invested in capital assets - Net of related debt	4,882,564	13,621,662	18,504,226	1,058,858
Restricted:				
Library endowments	47,322	-	47,322	-
Streets and highways	494,812	-	494,812	-
Debt service	40,137	-	40,137	-
Capital improvements	35,484	396,979	432,463	-
Unrestricted	<u>2,577,810</u>	<u>2,910,269</u>	<u>5,488,079</u>	<u>2,164,833</u>
Total net assets	<u>\$ 8,078,129</u>	<u>\$ 16,928,910</u>	<u>\$ 25,007,039</u>	<u>\$ 3,223,691</u>

City of Richmond, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions Capital Grants and Contributions
Functions/Programs			
Governmental activities:			
General government	\$ 828,909	\$ 17,486	\$ -
Public safety	1,622,818	285,281	-
Public works	1,030,837	176,039	388,916
Recreation and culture	665,941	172,525	7,169
Community development	79,687	28,229	34,417
Interest on long-term debt	65,942	-	-
Total governmental activities	4,294,134	679,560	430,502
Business-type activities:			
Water	682,512	757,073	-
Sewer	1,026,812	1,066,452	-
Total business-type activities	1,709,324	1,823,525	-
Total	<u>\$ 6,003,458</u>	<u>\$ 2,503,085</u>	<u>\$ 430,502</u>
Component unit - Tax Increment Finance Authority	<u>\$ 390,509</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:			
Property taxes			
State-shared revenues			
Interest			
Franchise fees			
Miscellaneous			
Transfers			
Total general revenues and transfers			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (811,423)	\$ -	\$ (811,423)	\$ -
(1,337,537)	-	(1,337,537)	-
(465,882)	-	(465,882)	-
(486,247)	-	(486,247)	-
(17,041)	-	(17,041)	-
(65,942)	-	(65,942)	-
(3,184,072)	-	(3,184,072)	-
-	330,249	330,249	-
-	196,979	196,979	-
-	527,228	527,228	-
(3,184,072)	527,228	(2,656,844)	-
-	-	-	(390,509)
2,984,643	-	2,984,643	1,050,670
481,611	-	481,611	-
148,858	98,714	247,572	101,488
58,665	-	58,665	-
360,277	-	360,277	-
20,300	(20,300)	-	-
4,054,354	78,414	4,132,768	1,152,158
870,282	605,642	1,475,924	761,649
7,207,847	16,323,268	23,531,115	2,462,042
\$ 8,078,129	\$ 16,928,910	\$ 25,007,039	\$ 3,223,691

City of Richmond, Michigan

	Major Funds		
	Special Revenue Fund	Debt Service Fund	
	General Fund	Major Streets	Special Assessment
Assets			
Cash and cash equivalents (Note 3)	\$ 1,594,912	\$ 552,721	\$ 36,769
Accounts receivable - Special assessments	-	-	80,661
Due from other funds (Note 5)	-	-	-
Due from other governmental units	129,307	16,426	-
Total assets	<u>\$ 1,724,219</u>	<u>\$ 569,147</u>	<u>\$ 117,430</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 57,945	\$ 169,033	\$ -
Accrued and other liabilities	132,472	1,927	-
Due to other funds (Note 5)	18,291	-	-
Deferred revenue (Note 8)	-	-	80,661
Total liabilities	208,708	170,960	80,661
Fund Balances			
Reserved - Library endowments	-	-	-
Unreserved, reported in:			
General Fund	1,515,511	-	-
Special Revenue Funds	-	398,187	-
Debt Service Funds	-	-	36,769
Capital Projects Funds	-	-	-
Total fund balances	<u>1,515,511</u>	<u>398,187</u>	<u>36,769</u>
Total liabilities and fund balances	<u>\$ 1,724,219</u>	<u>\$ 569,147</u>	<u>\$ 117,430</u>

**Governmental Funds
Balance Sheet
June 30, 2006**

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,422,955	\$ 3,607,357
8,308	88,969
18,291	18,291
6,274	152,007
<u>\$ 1,455,828</u>	<u>\$ 3,866,624</u>

\$ 72,381	\$ 299,359
21,299	155,698
-	18,291
8,308	88,969
101,988	562,317
47,322	47,322
-	1,515,511
364,138	762,325
3,368	40,137
939,012	939,012
1,353,840	3,304,307
<u>\$ 1,455,828</u>	<u>\$ 3,866,624</u>

City of Richmond, Michigan

Governmental Funds **Reconciliation of the Balance Sheet of Governmental Funds to the** **Statement of Net Assets** **Year Ended June 30, 2006**

Total Fund Balances of Governmental Funds	\$ 3,304,307
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	6,396,451
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,513,887)
Accrued interest payable	(12,000)
Compensated absences	(185,711)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	<u>88,969</u>
Net Assets of Governmental Activities	<u>\$ 8,078,129</u>

City of Richmond, Michigan

	Major Funds		
	Special Revenue Fund	Debt Service Fund	
	General Fund	Major Streets	Special Assessment
Revenue			
Property taxes	\$ 2,606,986	\$ -	\$ -
Special assessments	9,078	-	18,881
Federal sources	-	-	-
State sources	500,591	236,251	-
Charges for services	501,015	-	-
Interest and rent	76,348	14,205	5,932
Fines and forfeitures	82,702	-	-
Donations	3,702	-	-
Licenses and permits	143,882	-	-
Other	45,261	639	-
Total revenue	3,969,565	251,095	24,813
Expenditures			
Current:			
General government	684,670	-	-
Highways and streets	-	398,375	-
Public service	-	-	-
Public safety	1,497,272	-	-
Public works	575,107	-	-
Recreation and culture	278,319	-	-
Health and welfare	2,942	-	-
Capital outlay	-	-	-
Debt service:			
Principal retirement	126,520	-	25,000
Interest and fiscal charges	-	-	6,925
Total expenditures	3,164,830	398,375	31,925
Excess of Revenue Over (Under) Expenditures	804,735	(147,280)	(7,112)
Other Financing Sources (Uses)			
Transfers in (Note 5)	29,340	220,000	-
Transfers out (Note 5)	(717,139)	(40,000)	-
Total other financing sources (uses)	(687,799)	180,000	-
Net Change in Fund Balances	116,936	32,720	(7,112)
Fund Balances - Beginning of year	1,398,575	365,467	43,881
Fund Balances - End of year	\$ 1,515,511	\$ 398,187	\$ 36,769

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2006

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 377,657	\$ 2,984,643
10,144	38,103
26,020	26,020
85,416	822,258
262,312	763,327
57,223	153,708
-	82,702
36,223	39,925
-	143,882
61,015	106,915
916,010	5,161,483
-	684,670
151,795	550,170
75,850	75,850
164,653	1,661,925
31,994	607,101
347,348	625,667
-	2,942
39,507	39,507
396,717	548,237
61,017	67,942
1,268,881	4,864,011
(352,871)	297,472
810,439	1,059,779
(282,340)	(1,039,479)
528,099	20,300
175,228	317,772
1,178,612	2,986,535
\$ 1,353,840	\$ 3,304,307

City of Richmond, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances of Governmental Funds	\$	317,772
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures		461,764
Depreciation expense		(288,507)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities		421,717
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Interest expense is recorded when incurred in the statement of activities		2,000
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Compensated absence liabilities are recorded when earned in the statement of activities		(27,096)
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Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements		(17,368)
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Change in Net Assets of Governmental Activities	\$	<u>870,282</u>
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City of Richmond, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Major Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 726,731	\$ 1,797,226	\$ 2,523,957
Receivables:			
Special assessments	-	12,975	12,975
Customers	195,191	240,660	435,851
Prepaid items	5,845	-	5,845
Total current assets	927,767	2,050,861	2,978,628
Noncurrent assets:			
Special assessments - Long-term portion	-	51,905	51,905
Restricted cash and cash equivalents (Note 7)	-	396,979	396,979
Capital assets being depreciated - Net (Note 4)	5,221,250	8,613,712	13,834,962
Total noncurrent assets	5,221,250	9,062,596	14,283,846
Total assets	6,149,017	11,113,457	17,262,474
Liabilities			
Current liabilities:			
Accounts payable	8,689	69,124	77,813
Accrued and other liabilities	26,172	16,279	42,451
Current portion of long-term debt (Note 6)	106,650	-	106,650
Total current liabilities	141,511	85,403	226,914
Long-term debt (Note 6)	106,650	-	106,650
Total liabilities	248,161	85,403	333,564
Net Assets			
Invested in capital assets	5,007,950	8,613,712	13,621,662
Restricted (Note 7)	-	396,979	396,979
Unrestricted	892,906	2,017,363	2,910,269
Total net assets	<u>\$ 5,900,856</u>	<u>\$ 11,028,054</u>	<u>\$ 16,928,910</u>

City of Richmond, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Major Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
Usage fees	\$ 731,701	\$ 1,038,997	\$ 1,770,698
Tap-in fees	4,054	525	4,579
Penalties	10,715	15,258	25,973
Charges for services	7,950	-	7,950
Miscellaneous	2,653	11,672	14,325
Total operating revenue	757,073	1,066,452	1,823,525
Operating Expenses			
Administration	97,710	108,504	206,214
Infrastructure maintenance	27,263	-	27,263
Water production	167,763	-	167,763
Water system	240,188	-	240,188
Depreciation	141,467	234,319	375,786
Sewer treatment plant	-	405,537	405,537
Sewer system	-	278,452	278,452
Total operating expenses	674,391	1,026,812	1,701,203
Operating Income	82,682	39,640	122,322
Nonoperating Revenue (Expense)			
Interest income	22,458	76,256	98,714
Connection fees	70,020	70,434	140,454
Interest expense	(8,121)	-	(8,121)
Total nonoperating revenue	84,357	146,690	231,047
Income - Before operating transfers and contributions	167,039	186,330	353,369
Other Financing Sources (Uses)			
Transfers in (Note 5)	19,740	-	19,740
Transfers out (Note 5)	-	(40,040)	(40,040)
Total other financing sources (uses)	19,740	(40,040)	(20,300)
Capital Contributions	185,668	86,905	272,573
Net Change in Net Assets	372,447	233,195	605,642
Net Assets - Beginning of year	5,528,409	10,794,859	16,323,268
Net Assets - End of year	<u>\$ 5,900,856</u>	<u>\$ 11,028,054</u>	<u>\$ 16,928,910</u>

City of Richmond, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Major Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers and other funds	\$ 745,474	\$ 1,035,131	\$ 1,780,605
Payments to suppliers, employees, and other funds	(464,030)	(738,573)	(1,202,603)
Net cash provided by operating activities	281,444	296,558	578,002
Cash Flows from Noncapital Financing Activities			
Operating transfers in	19,740	-	19,740
Operating transfers out	-	(40,040)	(40,040)
Net cash provided by (used in) noncapital financing activities	19,740	(40,040)	(20,300)
Cash Flows from Capital and Related Financing Activities			
Principal and interest paid on capital debt	(122,983)	-	(122,983)
Collection of customer assessments (principal and interest)	-	12,976	12,976
Purchase of capital assets	(32,486)	(3,629)	(36,115)
Contributed capital from tap-in fees	70,020	70,434	140,454
Net cash provided by (used in) capital and related financing activities	(85,449)	79,781	(5,668)
Cash Flows from Investing Activities - Interest received on investments	22,458	76,256	98,714
Net Increase in Cash and Cash Equivalents	238,193	412,555	650,748
Cash and Cash Equivalents - Beginning of year	488,538	1,781,650	2,270,188
Cash and Cash Equivalents - End of year	<u>\$ 726,731</u>	<u>\$ 2,194,205</u>	<u>\$ 2,920,936</u>
Statement of Net Assets Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 726,731	\$ 1,797,226	\$ 2,523,957
Restricted assets	-	396,979	396,979
Total	<u>\$ 726,731</u>	<u>\$ 2,194,205</u>	<u>\$ 2,920,936</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 82,682	\$ 39,640	\$ 122,322
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	141,467	234,319	375,786
Changes in assets and liabilities:			
Customer receivables	(11,599)	(31,321)	(42,920)
Prepaid items	57,431	-	57,431
Accounts payable	5,454	52,916	58,370
Accrued liabilities	6,009	1,004	7,013
Net cash provided by operating activities	<u>\$ 281,444</u>	<u>\$ 296,558</u>	<u>\$ 578,002</u>
Noncash Transactions			
Capital assets purchased through a capital lease agreement	\$ 328,162	\$ -	\$ 328,162
Contributions of capital assets from developers	185,668	86,905	272,573

City of Richmond, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2006

	Agency Funds
	<hr/>
Assets	
Cash (Note 3)	\$ 24,836
Taxes receivable	<hr/> 482
Total assets	<u>\$ 25,318</u>
Liabilities - Accrued and other liabilities	<u>\$ 25,318</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Richmond, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- a. The Tax Increment Finance Authority was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation was inactive during 2006 and has no assets or liabilities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major funds:

Governmental Funds

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.
- The Major Streets Special Revenue Fund accounts for the activities related to major street construction.
- The Special Assessment Debt Service Fund accounts for the annual payment of principal, interest, and expenses in connection with special assessment debt.

Business-type Funds

- The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.
- The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

Special Revenue Funds - Special Revenue Funds account for the revenues and expenditures related to major streets, local streets, fire department, housing and urban development, mausoleum, cemetery, parks and recreation, and parking.

Note I - Summary of Significant Accounting Policies (Continued)

Debt Service Funds - Debt Service Funds account for the debt retirement activity of the governmental activities of the City for the general obligations and street improvements projects of the City.

Capital Projects Funds - Capital Projects Funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, and street improvements.

Agency Funds - Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating revenue expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2005 taxable valuation of the City totaled \$183.2 million (a portion of which is captured by the TIFA). Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	\$ 16.6526	\$ 2,507,444
Debt	2.0500	376,167
Total	<u>\$ 18.7026</u>	<u>\$ 2,883,611</u>

These amounts are recognized in the respective General and Debt Service Funds financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Noncurrent Receivables - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	30-50 years
Vehicles and equipment	5-40 years
Utility systems	50 years
Infrastructure - Roads	25 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to the first regular board meeting in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

- The City manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the three highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law.

The City has designated one bank for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the state statutory authority as listed above.

The City's deposits and investment policies are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2006, the City had \$7,056,147 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City also holds bank deposits on behalf of its component unit. At June 30, 2006, the City had \$1,471,653 of component unit bank deposits that were uninsured and uncollateralized. The City and its component unit believe that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and its component unit evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City and its component unit have no investment policy that would further limit their investment choices. As of June 30, 2006, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary Government			
Bank investment pool	\$ 6,373,628	Not rated	Not rated
Bank investment pool	136,133	Not rated	Not rated
Component Unit			
Bank investment pool	357,233	Not rated	Not rated

City of Richmond, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital assets being depreciated:				
Buildings	3,906,081	123,649	-	4,029,730
Infrastructure	1,220,060	267,665	-	1,487,725
Vehicles and equipment	3,299,632	70,450	-	3,370,082
Subtotal	8,425,773	461,764	-	8,887,537
Accumulated depreciation:				
Buildings	895,415	76,617	-	972,032
Infrastructure	70,001	47,115	-	117,116
Vehicles and equipment	1,357,163	164,775	-	1,521,938
Subtotal	2,322,579	288,507	-	2,611,086
Net capital assets being depreciated	6,103,194	173,257	-	6,276,451
Net capital assets	<u>\$ 6,223,194</u>	<u>\$ 173,257</u>	<u>\$ -</u>	<u>\$ 6,396,451</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 157,042	\$ -	\$ -	\$ 157,042
Capital assets being depreciated:				
Buildings	9,067,007	374,817	-	9,441,824
Utility systems	9,891,298	91,610	-	9,982,908
Vehicles and equipment	498,033	170,423	-	668,456
Subtotal	19,456,338	636,850	-	20,093,188
Accumulated depreciation:				
Buildings	2,831,521	151,282	-	2,982,803
Utility systems	3,025,837	187,806	-	3,213,643
Vehicles and equipment	182,124	36,698	-	218,822
Subtotal	6,039,482	375,786	-	6,415,268
Net capital assets being depreciated	13,416,856	261,064	-	13,677,920
Net capital assets	<u>\$ 13,573,898</u>	<u>\$ 261,064</u>	<u>\$ -</u>	<u>\$ 13,834,962</u>

Note 4 - Capital Assets (Continued)

Capital asset activity of the City's component unit was as follows:

Component Unit Activities	Balance			Balance
	July 1, 2005	Additions	Disposals	June 30, 2006
Capital assets not being depreciated -				
Construction in progress	\$ 406,037	\$ 1,049,366	\$ 406,037	\$ 1,049,366
Capital assets being depreciated -				
Furniture and fixtures	-	11,865	-	11,865
Accumulated depreciation -				
Furniture and fixtures	-	2,373	-	2,373
Net capital assets being depreciated	-	9,492	-	9,492
Net capital assets	<u>\$ 406,037</u>	<u>\$ 1,058,858</u>	<u>\$ 406,037</u>	<u>\$ 1,058,858</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 26,016
Public safety	154,766
Public works	75,157
Community and economic development	1,933
Recreation and culture	<u>30,635</u>
Total governmental activities	<u>\$ 288,507</u>

Business-type activities:

Water lines	\$ 141,467
Sewer lines	<u>234,319</u>
Total business-type activities	<u>\$ 375,786</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds -		
Other governmental funds	General Fund	<u>\$ 18,291</u>

Interfund balances represent routine and temporary cash flow assistance.

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
Interfund Transfers		
Governmental funds:		
General Fund	Nonmajor governmental funds	\$ 717,139
Major Streets Fund	Nonmajor governmental funds	40,000
Nonmajor governmental funds	General Fund	29,340
	Major Streets Fund	220,000
	Nonmajor governmental funds	<u>33,000</u>
	Total nonmajor governmental funds	<u>282,340</u>
	Total operating transfers out from governmental funds	1,039,479
Business-type fund -		
Sewer Fund	Water Fund	19,740
	Nonmajor governmental funds	<u>20,300</u>
	Total operating transfers out from business-type funds	<u>40,040</u>
	Total operating transfers out	<u>\$ 1,079,519</u>

Transfers provided funding for capital projects, capital acquisitions, and program services in accordance with budgetary authorizations.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$81,000 of special assessments receivable in the future reported in the Special Assessment District Fund; the amount of receivables delinquent at June 30, 2006 is not significant. In addition, there is approximately \$37,000 set aside in the Special Assessment District Fund for repayment of these bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
1995 Road Bond:						
Amount of issue - \$3,065,000						
Maturing through 2009	4.75%	\$ 1,405,000	\$ -	\$ (350,000)	\$ 1,055,000	\$ 350,000
Special Assessment Bond:						
2001 Special Assessments Bonds - 33 Mile Road:						
Amount of issue - \$228,000	4.25%-					
Maturing through 2011	4.70%	150,000	-	(25,000)	125,000	25,000
Installment purchase obligations:						
Fire truck purchase						
Amount of issue - \$100,000						
Maturing through 2007	5.24%	42,344	-	(20,697)	21,647	21,647
Capital lease obligation:						
Community Center						
Amount of issue - \$365,405						
Maturing through 2018	0%	338,260	-	(26,020)	312,240	26,020
Subtotal		1,935,604		(421,717)	1,513,887	422,667
Other long-term obligations - Compensated absences		158,615	27,096	-	185,711	75,780
Total governmental activities		<u>\$ 2,094,219</u>	<u>\$ 27,096</u>	<u>\$ (421,717)</u>	<u>\$ 1,699,598</u>	<u>\$ 498,447</u>
Business-type Activities						
Capital lease obligation -						
Arsenic Removal Plant						
Amount of issue \$328,162						
Maturing through 2008	3%	<u>\$ -</u>	<u>\$ 328,162</u>	<u>\$ (114,862)</u>	<u>\$ 213,300</u>	<u>\$ 106,650</u>

Long-term obligation activity for the component unit is summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Debt						
1995 Development Bond Series A:						
Amount of issue - \$1,200,000	6.10%-					
Maturing through 2009	6.30%	\$ 505,000	\$ -	\$ (115,000)	\$ 390,000	\$ 125,000
1995 Development Bond Series B:						
Amount of issue - \$1,275,000	6.10%-					
Maturing through 2009	6.30%	545,000	-	(120,000)	425,000	130,000
Total component unit debt		<u>\$ 1,050,000</u>	<u>\$ -</u>	<u>\$ (235,000)</u>	<u>\$ 815,000</u>	<u>\$ 255,000</u>

City of Richmond, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 422,667	\$ 48,495	\$ 471,162	\$ 255,000	\$ 42,778	\$ 297,778
2008	401,020	29,700	430,720	280,000	26,320	306,320
2009	406,020	11,869	417,889	280,000	8,820	288,820
2010	51,020	2,325	53,345	-	-	-
2011	25,000	1,175	26,175	-	-	-
2012-2016	156,120	-	156,120	-	-	-
2017-2018	52,040	-	52,040	-	-	-
Total	<u>\$ 1,513,887</u>	<u>\$ 93,564</u>	<u>\$ 1,607,451</u>	<u>\$ 815,000</u>	<u>\$ 77,918</u>	<u>\$ 892,918</u>

	Business Activities		
	Principal	Interest	Total
2007	\$ 106,650	\$ 6,399	\$ 113,049
2008	<u>106,650</u>	<u>3,200</u>	<u>109,850</u>
Total	<u>\$ 213,300</u>	<u>\$ 9,599</u>	<u>\$ 222,899</u>

Interest - The interest incurred for the City for the year approximated \$133,000.

Capital Lease - The City has entered into lease agreements as lessee for financing the purchase of a community center and an arsenic removal facility from the Tax Increment Financing Authority. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Note 6 - Long-term Debt (Continued)

Years Ending June 30	Community Center	Removal Facility
2007	\$ 26,020	\$ 106,650
2008	26,020	106,650
2009	26,020	-
2010	26,020	-
2011	26,020	-
2012-2016	130,100	-
2017-2018	52,040	-
Total minimum lease payments	312,240	213,300
Less amount representing interest	-	-
Present value	<u>\$ 312,240</u>	<u>\$ 213,300</u>

Note 7 - Restricted Assets

Restricted assets at June 30, 2006 consist of cash and cash equivalents that are restricted for future capital needs for the sewer treatment plant as required by the Environmental Protection Agency regulations. Net assets have been restricted for capital improvement related to this requirement.

Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the entire amount of deferred revenue relates to special assessments and is unavailable to liquidate liabilities of the current period.

Note 9 - Commitments

The City entered into an agreement with Lenox Township for the ability to tax an area of land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total assessed value of the area purchased. The City paid \$126,520 during the year ended June 30, 2006, when the assessed value of the area approximated \$35,145,000.

City of Richmond, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Commitments (Continued)

During the year ending June 30, 2007, the City will pay approximately \$134,000, based on an estimated assessed value of \$37,343,000. Future installment payments have been estimated assuming inflationary increases of 3 percent.

The annual payment requirements to service the agreement as of June 30, 2006 are as follows:

2007	\$ 134,436
2008	138,469
2009	142,623
2010	146,902
2011	151,309
2012-2016	827,421
2017-2019	<u>558,436</u>
Total	<u>\$ 2,099,596</u>

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$151,748 during the current year, and employees contributed \$84,044.

Note 12 - State Construction Code Act

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the Act, the City adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2006 was as follows:

Accumulated Expenditures Over Revenue - July 1, 2005	\$ (21,482)
2005-2006 building department activity:	
Current year revenue	79,949
Current year expenditures	<u>99,501</u>
Excess of expenditures over revenues	<u>(19,552)</u>
Accumulated Expenditures Over Revenue - June 30, 2006	<u><u>\$ (41,034)</u></u>

Required Supplemental Information

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Revenue</u>				
Property Taxes				
Real and personal property taxes	\$ 2,585,478	\$ 2,585,478	\$ 2,588,263	\$ 2,785
Interest, penalties, and other	16,000	16,000	18,723	2,723
Total property taxes	2,601,478	2,601,478	2,606,986	5,508
Licenses and Permits				
Building permits	42,000	42,000	31,893	(10,107)
Electrical and plumbing permits	33,000	33,000	30,626	(2,374)
Cable television franchise fee	56,500	56,500	62,655	6,155
Other	18,952	18,952	18,708	(244)
Total licenses and permits	150,452	150,452	143,882	(6,570)
State Sources				
Revenue-sharing	488,892	488,892	481,611	(7,281)
Library	7,200	7,200	7,169	(31)
State grants	17,770	17,770	8,397	(9,373)
Liquor license fees	3,000	3,000	3,414	414
Total state sources	516,862	516,862	500,591	(16,271)
Charges for Services				
Trash collection	151,000	151,000	158,218	7,218
Fees	11,653	11,653	34,947	23,294
Rentals	302,495	302,495	307,850	5,355
Total charges for services	465,148	465,148	501,015	35,867

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Budget
Revenue (Continued)				
Fines and Forfeitures				
Traffic fines and penalties	\$ 35,500	\$ 35,500	\$ 43,996	\$ 8,496
Library fines	28,500	28,500	38,706	10,206
Total fines and forfeitures	64,000	64,000	82,702	18,702
Donations	3,000	3,000	3,702	702
Interest	22,000	22,000	76,348	54,348
Other Revenue				
Special assessment payments	9,078	9,078	9,078	-
Other	19,885	19,885	45,261	25,376
Total other revenue	28,963	28,963	54,339	25,376
Total revenue	3,851,903	3,851,903	3,969,565	117,662
Other Financing Sources - Operating				
transfers in	23,917	23,917	29,340	(5,423)
Total revenue and other financing sources	3,875,820	3,875,820	3,998,905	112,239

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Expenditures</u>				
General Government				
City Council	\$ 37,460	\$ 37,460	\$ 30,116	\$ 7,344
Cable television	52,500	52,500	48,433	4,067
City manager	135,225	122,290	67,898	54,392
Elections	14,470	14,470	7,584	6,886
Assessor	46,616	46,616	42,229	4,387
Attorney	44,800	36,250	27,948	8,302
Clerk	90,912	99,462	103,560	(4,098)
Board of Review	2,580	10,192	9,673	519
Zoning Board of Appeals	1,750	1,750	463	1,287
Treasurer	62,027	62,027	60,567	1,460
Building and grounds	65,047	65,047	56,616	8,431
Building and grounds - Police	124,110	230,383	229,583	800
Total general government	677,497	778,447	684,670	93,777
Public Safety				
Police	1,013,384	1,013,270	1,008,481	4,789
Civil defense/emergency preparedness	1,500	6,823	6,430	393
Traffic and safety	36,819	36,819	28,204	8,615
Communications	239,178	239,292	238,840	452
Building code enforcement	125,475	126,006	99,501	26,505
Planning	72,964	72,964	66,991	5,973
Public service director	47,850	47,850	48,825	(975)
Total public safety	1,537,170	1,543,024	1,497,272	45,752
Public Works				
Department of Public Works	677,229	707,191	358,294	348,897
Street lighting	78,080	78,080	76,464	1,616
Refuse collection and disposal	146,402	146,402	140,349	6,053
Total public works	901,711	931,673	575,107	356,566

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Expenditures</u> (Continued)				
Health and Welfare - Economic development	\$ 4,700	\$ 4,700	\$ 2,942	\$ 1,758
Recreation and Cultural - Library	288,492	288,492	278,319	10,173
Debt Service - Principal	<u>126,520</u>	<u>126,520</u>	<u>126,520</u>	<u>-</u>
Total expenditures	3,536,090	3,672,856	3,164,830	508,026
Other Uses - Operating transfers out	<u>771,483</u>	<u>770,265</u>	<u>717,139</u>	<u>53,126</u>
Total expenditures and other uses	<u>4,307,573</u>	<u>4,443,121</u>	<u>3,881,969</u>	<u>561,152</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(431,753)	(567,301)	116,936	684,237
Fund Balance - July 1, 2005	<u>1,398,575</u>	<u>1,398,575</u>	<u>1,398,575</u>	<u>-</u>
Fund Balance - June 30, 2006	<u>\$ 966,822</u>	<u>\$ 831,274</u>	<u>\$ 1,515,511</u>	<u>\$ 684,237</u>

City of Richmond, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Budget
<u>Revenue</u>				
State Sources - State grants	\$ 238,204	\$ 240,835	\$ 236,251	\$ (4,584)
Interest	2,650	12,324	14,205	1,881
Other Revenue	-	640	639	(1)
Total revenue	240,854	253,799	251,095	(2,704)
Other Financing Sources - Operating transfers in	450,000	175,000	220,000	45,000
Total revenue and other financing sources	690,854	428,799	471,095	42,296
<u>Expenditures</u>				
Highways and Streets				
Capital improvements	825,656	316,339	272,754	43,585
Routine maintenance	61,732	64,250	53,427	10,823
Traffic services	23,726	23,684	22,395	1,289
Winter maintenance	44,849	41,843	41,660	183
Administration	8,374	8,338	8,139	199
Total highways and streets	964,337	454,454	398,375	56,079
Other Uses - Operating transfers out	40,000	40,000	40,000	-
Total highways and streets and other uses	1,004,337	494,454	438,375	(56,079)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(313,483)	(65,655)	32,720	98,375
Fund Balance - July 1, 2005	365,467	365,467	365,467	-
Fund Balance - June 30, 2006	<u>\$ 51,984</u>	<u>\$ 299,812</u>	<u>\$ 398,187</u>	<u>\$ 98,375</u>

Other Supplemental Information

City of Richmond, Michigan

Nonmajor Special Revenue Funds				
	Local Streets	Fire Department	Housing and Urban Development	Mausoleum
Assets				
Cash and cash equivalents	\$ 138,191	\$ 35,328	\$ -	\$ 55,113
Accounts receivable - Special assessments	-	-	-	-
Due from other funds	-	8,000	-	-
Due from other governmental units	6,274	-	-	-
Total assets	<u>\$ 144,465</u>	<u>\$ 43,328</u>	<u>\$ -</u>	<u>\$ 55,113</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 46,808	\$ 2,390	\$ -	\$ -
Accrued and other liabilities	1,032	-	-	26
Deferred revenue	-	-	-	-
Total liabilities	47,840	2,390	-	26
Fund Balances - Undesignated	<u>96,625</u>	<u>40,938</u>	<u>-</u>	<u>55,087</u>
Total liabilities and fund balances	<u>\$ 144,465</u>	<u>\$ 43,328</u>	<u>\$ -</u>	<u>\$ 55,113</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Debt Service Funds</u>	
<u>Cemetery</u>	<u>Parks and Recreation</u>	<u>Parking</u>	<u>Debt Service</u>	<u>Street Improvements</u>
\$ 170,399	\$ 19,078	\$ 531	\$ -	\$ 3,368
-	-	-	-	-
-	10,291	-	-	-
-	-	-	-	-
<u>\$ 170,399</u>	<u>\$ 29,369</u>	<u>\$ 531</u>	<u>\$ -</u>	<u>\$ 3,368</u>
\$ 16	\$ 8,554	\$ -	\$ -	\$ -
1,991	18,250	-	-	-
-	-	-	-	-
2,007	26,804	-	-	-
168,392	2,565	531	-	3,368
<u>\$ 170,399</u>	<u>\$ 29,369</u>	<u>\$ 531</u>	<u>\$ -</u>	<u>\$ 3,368</u>

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City of Richmond, Michigan

Nonmajor Capital Projects Funds				
	Vehicle and Repairs	WWTP Equipment Replacement	Street Improvement	Sidewalk Assistance
Assets				
Cash and cash equivalents	\$ 114,318	\$ 437,474	\$ 351,736	\$ 50,097
Accounts receivable - Special assessments	-	-	-	8,308
Due from other funds	-	-	-	-
Due from other governmental units	-	-	-	-
Total assets	<u>\$ 114,318</u>	<u>\$ 437,474</u>	<u>\$ 351,736</u>	<u>\$ 58,405</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 14,613
Accrued and other liabilities	-	-	-	-
Deferred revenue	-	-	-	8,308
Total liabilities	-	-	-	22,921
Fund Balances - Undesignated	<u>114,318</u>	<u>437,474</u>	<u>351,736</u>	<u>35,484</u>
Total liabilities and fund balances	<u>\$ 114,318</u>	<u>\$ 437,474</u>	<u>\$ 351,736</u>	<u>\$ 58,405</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2006**

Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
Library Endowment	
\$ 47,322	\$ 1,422,955
-	8,308
-	18,291
-	6,274
<u>\$ 47,322</u>	<u>\$ 1,455,828</u>
\$ -	\$ 72,381
-	21,299
-	8,308
-	101,988
<u>47,322</u>	<u>1,353,840</u>
<u>\$ 47,322</u>	<u>\$ 1,455,828</u>

City of Richmond, Michigan

	Nonmajor Special Revenue Funds			
		Fire	Housing and Urban	
	Local Streets	Department	Development	Mausoleum
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Federal sources	-	-	26,020	-
State sources	85,416	-	-	-
Charges for services	270	116,291	-	1,853
Interest	4,094	1,922	-	1,927
Donations	-	21,312	-	-
Other	460	7,128	-	-
Total revenue	90,240	146,653	26,020	3,780
Expenditures				
Current:				
Highways and streets	151,795	-	-	-
Public service	-	-	-	2,258
Public safety	-	164,653	-	-
Public works	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	24,456	-	-
Debt service:				
Principal retirement	-	20,697	26,020	-
Interest and fiscal charges	-	2,192	-	-
Total expenditures	151,795	211,998	26,020	2,258
Excess of Revenue Over (Under)				
Expenditures	(61,555)	(65,345)	-	1,522
Other Financing Sources (Uses)				
Transfers in	73,000	96,526	-	-
Transfers out	-	(23,917)	-	-
Total other financing sources (uses)	73,000	72,609	-	-
Net Change in Fund Balances	11,445	7,264	-	1,522
Fund Balances - Beginning of year	85,180	33,674	-	53,565
Fund Balances - End of year	<u>\$ 96,625</u>	<u>\$ 40,938</u>	<u>\$ -</u>	<u>\$ 55,087</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Debt Service	Street Improvements
\$ -	\$ -	\$ -	\$ -	\$ 377,657
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
32,698	111,181	19	-	-
6,730	475	-	8	832
-	14,911	-	-	-
-	2,427	-	-	-
39,428	128,994	19	8	378,489
-	-	-	-	-
73,592	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	347,348	-	-	-
-	-	-	-	-
-	-	-	-	350,000
-	-	-	-	58,825
73,592	347,348	-	-	408,825
(34,164)	(218,354)	19	8	(30,336)
62,650	220,919	-	-	-
-	-	-	(5,423)	-
62,650	220,919	-	(5,423)	-
28,486	2,565	19	(5,415)	(30,336)
139,906	-	512	5,415	33,704
<u>\$ 168,392</u>	<u>\$ 2,565</u>	<u>\$ 531</u>	<u>\$ -</u>	<u>\$ 3,368</u>

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City of Richmond, Michigan

	Nonmajor Capital Projects Funds			
	WWTP			
	Vehicle and Repairs	Equipment Replacement	Street Improvement	Sidewalk Assistance
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	10,144
Federal sources	-	-	-	-
State sources	-	-	-	-
Charges for services	-	-	-	-
Interest	3,430	14,916	11,508	2,034
Donations	-	-	-	-
Other	-	-	51,000	-
Total revenue	3,430	14,916	62,508	12,178
Expenditures				
Current:				
Highways and streets	-	-	-	-
Public service	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	31,994
Recreation and culture	-	-	-	-
Capital outlay	3,674	11,377	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	3,674	11,377	-	31,994
Excess of Revenue Over (Under)				
Expenditures	(244)	3,539	62,508	(19,816)
Other Financing Sources (Uses)				
Transfers in	35,262	20,300	301,782	-
Transfers out	-	-	(253,000)	-
Total other financing sources (uses)	35,262	20,300	48,782	-
Net Change in Fund Balances	35,018	23,839	111,290	(19,816)
Fund Balances - Beginning of year	79,300	413,635	240,446	55,300
Fund Balances - End of year	<u>\$ 114,318</u>	<u>\$ 437,474</u>	<u>\$ 351,736</u>	<u>\$ 35,484</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2006

Nonmajor Permanent	Total Nonmajor Governmental Funds
Library Endowment	
\$ -	\$ 377,657
-	10,144
-	26,020
-	85,416
-	262,312
9,347	57,223
-	36,223
-	61,015
9,347	916,010
-	151,795
-	75,850
-	164,653
-	31,994
-	347,348
-	39,507
-	396,717
-	61,017
-	1,268,881
9,347	(352,871)
-	810,439
-	(282,340)
-	528,099
9,347	175,228
37,975	1,178,612
\$ 47,322	\$ 1,353,840

City of Richmond, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds June 30, 2006

	Trust and Agency	Payroll	Total
Assets			
Cash	\$ 8,113	\$ 16,723	\$ 24,836
Taxes receivable	<u>482</u>	<u>-</u>	<u>482</u>
Total assets	<u>\$ 8,595</u>	<u>\$ 16,723</u>	<u>\$ 25,318</u>
Liabilities - Accrued and other liabilities	<u>\$ 8,595</u>	<u>\$ 16,723</u>	<u>\$ 25,318</u>



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July 27, 2006

To the Honorable Mayor and
Members of the City Council
City of Richmond
68225 Main Street
Richmond, MI 48062

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Richmond (the "City") for the year ended June 30, 2006. As part of our audit, we offer the following comments and recommendations for your review and consideration.

In planning and performing our audit of the City's financial statements, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted one matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters noted are only those that came to our attention and, had our procedures in internal control-related matters been more extensive, other matters may have been noted. The functioning of internal control was assessed at a point in time and no assurances can be drawn that internal control is functioning or will continue to function beyond the point in time at which it was assessed.

The following reportable condition is presented for your consideration:

The City's banking arrangements designate the treasurer of the City as one of the authorized check signers on the payroll bank account. The treasurer also has the ability to prepare payroll, add new employees to the payroll system, update pay rates, print payroll checks, and post journal entries to the general ledger (which are not required to be reviewed by anyone else).

The treasurer's ability to sign the payroll checks creates an internal control weakness. Controls are further weakened by a lack of segregation of duties between the preparation of the payroll function and the function of updating employee pay rates and creating new employees in the system. We recommend that the treasurer be removed as an authorized check signer on the payroll account or that the payroll function be performed by another person. In addition, we recommend segregating the payroll preparation function from the function of updating employee pay rates and creating new employees in the system.

Other Recommendations (Not Reportable Conditions)

The following items are not considered to be reportable conditions as defined above, but are presented for your consideration:

Overview of the City's Financial Condition

During the year ended June 30, 2006, the City's General Fund revenues exceeded expenditures by approximately \$117,000. As a result, fund balance at June 30, 2006 increased to approximately \$1,516,000. The General Fund fund balance represents approximately 34 percent of the City's budgeted expenditures for the fiscal year ending June 30, 2007. In spite of financial challenges faced by many communities, the City is maintaining a solid financial position.

The City will continue to be faced with budgetary challenges such as legislative uncertainties and future capital equipment and infrastructure needs. As such, we encourage the City Council and administration to continue to closely monitor the budget and to accumulate a sufficient level of fund balance during favorable financial periods. Doing so will help ensure that the City is able to maintain an adequate level of working capital without affecting the level of services provided to citizens or the City's ability to meet infrastructure needs and future obligations.

Internal Control

Segregation of duties is an essential component of a sound system of internal controls. When job responsibilities are properly segregated, a system of "checks and balances" is created, thereby reducing the risk of intentional or unintentional errors and/or omissions in the accounting records. Through our audit procedures, we noted the following internal control matters that we present for your consideration as part of the City's process of continuous improvement:

- We also noted that the treasurer receives the statements for all of the City's bank and investment accounts, reconciles the accounts to the City's records, and makes any required adjustments to the general ledger. The reconciliations are reviewed by the city manager which provides an essential layer of control in the reconciliation process; however, these controls could be strengthened with further segregation of duties, such as having another individual receive, open, and review the bank and investment statements before they are reconciled.
- The treasurer makes use of electronic wire transfers to effect various transactions, including payroll and debt payments. Currently, these transfers can be initiated and authorized by the treasurer without prior review or approval by a second individual. Though wire transfers are not used routinely, we encourage management to consider whether the supervisory review of monthly bank reconciliations provides sufficient control over electronic disbursements, given the immediate nature of these transactions. Controls over electronic transactions should typically mirror or exceed those controls over traditional disbursements (approvals by various individuals, Council review, etc).

- The pre-numbered check stock is stored in an unlocked cabinet in the treasurer's office, which means all employees in the business office have access to the check stock. In order to establish adequate internal controls over the cash disbursement function, the check stock should be kept under lock and key with only authorized individuals having access to the check stock. In addition, a system should be established to sign out a numerical range of check stock when needed. This will hold authorized individuals accountable for the check stock they have received.

Other Items

- **General Ledger Adjustments** - During the current year, many adjustments were made at year end to adjust beginning fund balance, special assessment receivables and deferred revenue, unbilled accounts receivable and revenue, other accounts receivable and revenue, accounts payable, fixed assets, Tifa activity, and connection fees. This type of accounting maintenance should be performed on a monthly basis by an individual in the finance department. Plante & Moran, PLLC has assisted numerous municipal staff with the training and assistance necessary to perform these necessary procedures and we would be happy to discuss various alternatives with the City Council.
- **Capital Assets Bookkeeping** - The City now utilizes a capital asset module in order to maintain and depreciate the capital assets of the City. During our testing of capital assets, we noted capital outlay expenditure accounts per the general ledger did not reconcile to the current year asset additions per the capital asset module. While the information included in the module was materially correct at year end, the City should consider performing a monthly review of assets recorded in the general ledger capital outlay accounts and compare this information to the assets included in the module. Performing this reconciliation on a monthly basis will ensure all assets are appropriately recorded in the module and depreciated.
- **Payroll** - During our testing of payroll, we noted one employee's pay rate was entered into the payroll system incorrectly. Currently, no procedures are in place for a supervisory review of updated pay rates. We recommend the City perform a supervisory review of all pay rates once new rates are entered into the payroll system.

State Revenue Sharing

The City has and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue accounts for approximately 12 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions in the State's budget, revenue-sharing payments for the State's fiscal year ended September 30, 2005 and 2006 were less than originally projected.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

It is also important to recognize that the authority for the statutory portion of revenue sharing terminates on September 30, 2007. This portion represents approximately \$147,000 of the \$482,000 distribution received in fiscal year 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program. We will continue to update the City as developments occur.

Retiree Health Care - Police Officers

As you are aware, the City will provide postemployment health care benefits to police department retirees. Currently, there is one retiree eligible for these benefits and the City did not pay any premiums in the prior year related to this benefit.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to either obtain an actuarial valuation of the obligation to provide retiree health care benefits or do your own calculation. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability will be disclosed in the financial statements. The changes required under GASB Statement No. 45 will be effective for the City's year ending June 30, 2009. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

To the Honorable Mayor and
Members of the City Council
City of Richmond

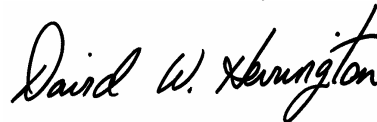
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July 27, 2006

Once again, we would like to thank you for the opportunity to serve as auditors for the City. We truly appreciate the assistance we received from your staff during our audit and we enjoyed working with them throughout the audit. If you have any questions regarding any of the items above, please do not hesitate to contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive style with a large, stylized 'D' and 'H'.

David W. Herrington

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive style with a large, stylized 'J' and 'C'.

Jenny L. Cederstrom